

REPORT OF
FINANCIAL EXAMINATION
THE RELIABLE LIFE INSURANCE COMPANY



AS OF
DECEMBER 31, 2004

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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March 3, 2006
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs/Madam:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of:

The Reliable Life Insurance Company

hereinafter referred to as such or as "TRLIC" or as the "Company." The Company's statutory home office is located at 12115 Lackland Road, St. Louis, Missouri, telephone number (314) 819-4300. This examination began on September 6, 2005 and concluded on March 3, 2006.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2001, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

COMMENTS PREVIOUS EXAMINATION

The comments and recommendations of the previous examination report, made as of December 31, 2001, are listed below. The Company's response to these items and the current findings related to the 2001 comments and recommendations are also documented below.

1. Comment: Disaster Recovery Plan

"It is recommended that the Company update and regularly test its business continuity/disaster recovery plan. Without a current plan, improved via periodic walk-through/restoration testing, the contingency planning process has diminished value because a variety of unforeseen problems may arise that have not been 'refined out' of the recovery process."

Company Response:

"The Company has updated its business continuity/disaster recovery plans. During the period of October 4-5, 2003, the Company completed a test of its disaster recovery plan. Except for certain issues which the test identified, the test was substantially successful. A second test was scheduled and performed in December to address these issues. This test was completed successful. The Company plans to perform and test its disaster recovery plans at least on an annual basis."

Current Findings:

No concerns were noted in this area in the current examination.

2. Comment: Life Premiums Receivable

"The prior examination Management Letter noted that the Company was reporting uncollected gross premium offset by liabilities reported for commission and premium tax on the uncollected premium. Per SSAP No. 51, the uncollected premium asset should be reported net of commission, premium tax and all loading. Again, as in the prior examination, the premium receivable was overstated. The premium receivable database also included premium receivables on policies, which should have expired because a death benefit had been paid, and on policies that, were past due and in excess of ninety days old. In total the account was overstated by \$1,180,820. This amount was below the examination materiality level and therefore no adjustment was made in the financial statements, however, it is recommended that the Company review each of these issues and take corrective action to ensure that premium due and deferred is properly and accurately reported in the Annual Statement."

Company Response:

“The Company will report its life premiums due net of liabilities accrued for commissions and premium taxes on premiums due. In addition, the Company will periodically review the premium receivable to eliminate premiums due on policies which should have expired or are in excess of ninety days old.”

Current Findings:

The Company correctly reported the asset for premiums due net of commissions and premium taxes in its 2004 Annual Statement. The premiums receivable account, however, continues to include approximately \$150,000 related to policies where the Company has already paid a death benefit. The Company should take steps to eliminate these balances from premiums receivable reported as admitted assets in the financial statements.

3. *Comment: Liabilities for Deposit-Type Contracts*

“It is recommended that procedures be implemented and documented to assure that policyholders are notified of premium overpayments and of the correct premium amounts. It is also recommended that policyholders with premium deposit balances be informed of these balances on a regular basis, and that they be given the choice of receiving refunds of these overpayments or using the deposit balance to pay current premiums when due. It is also recommended that a threshold be established at which interest will be credited to Miscellaneous Premium Deposit balances. While it would not be reasonable to require interest to be paid on all deposit balances, (i.e. a \$5 balance would only earn annual interest of around 25 cents), it is clear that balances that are over \$1,000 should be accruing interest. It is again recommended that procedures be implemented to ensure that, if any premium deposits are for policies that are no longer in force and that policyholders cannot be located, that the premium funds be transferred to a liability account and remitted as unclaimed property.”

Company Response:

“The Company will develop a policy and procedures for dealing with premium left on deposit by the policyholder. The policy may include, but not be limited to, either crediting the policyholder for the advance premium or refunding the premium to the policyholder. Procedures will be developed to identify deposit amounts, if any, that need to be remitted as unclaimed property.”

Current Findings:

The Liability for Deposit-Type Contracts continued to include premium overpayments in the 2004 Annual Statement. The balance of these overpayments was approximately \$80,000 at December 31, 2004. As such, the Company was not refunding overpayments to policyholders or applying the overpayments to subsequent billings. The Company has created a program to address this problem, but the program had not been implemented. The program is designed to stop overpayments from disappearing into Miscellaneous Premiums on Deposit. Instead, overages will appear as reductions on the next month's bill. The Company should take steps to implement the program developed to prevent premium overpayments from accumulating in the premium deposit account. The Company should also return any overpayments owed to individuals with appropriate interest or remit these funds to the Missouri Division of Unclaimed Property if the owners cannot be located.

4. *Comment: Life Policy and Contract Claims*

“As noted in the prior examination the Company does not reconcile the death claims database to the general ledger. It is again recommended that the Company implement procedures to produce reconciliations of the paid claims database to the general ledger on a regular basis.”

Company Response:

“The Company will develop procedures to reconcile paid claims per the general ledger to the death claims database.”

Current Findings:

The Company did not perform this reconciliation in 2004. The current examination found that the paid claim database used to calculate reserves was missing some claims paid information. The total 2004 life paid claims per the general ledger was approximately \$6 million greater than the total from the paid claim database. A smaller difference was noted for A&H claims database. The Company should reconcile these two sources (paid claims database and the general ledger) to ensure that significant amounts of data are not missing from either of the sources. Also, the Company should ensure that the paid claim amounts used to compile its lag studies are accurate and complete to produce a better estimate of the Unpaid Claims liability.

5. *Comment: Policyholder Dividends*

“As noted in the prior examination management letter the Company acquired business that had never been reconciled to supporting detail. The lack of support was deemed a violation of Missouri 20 CSR 200-4.010. It was recommended that the Company reconcile and support all account balances in the Annual Statement. It is again recommended that the Company review and maintain this account. In our review of the account we found instances in which balances should have previously been paid with a death benefit and other instances where no record of a related policy could be found in the Life 70 system.”

Company Response:

“The Company will review and reconcile its policyholder dividend account.”

Current Findings:

The Company's now has reconciled its policyholder dividend account. All amounts reported in this liability are now associated with policyholders of the Company.

HISTORY

General

The Company was incorporated on December 12, 1911 as the Reliable Life & Accident Insurance Company, and was issued a Certificate of Authority as a stock life company under the provisions of Chapter 376 RSMo (Life and Accident Insurance). The Company began operations on January 22, 1912. In 1936, the Company adopted its current name, The Reliable Life Insurance Company. On May 29, 1998, Unitrin, Inc. acquired all of the outstanding stock of the Company. Unitrin, Inc. sold the Company to its subsidiary, United Insurance Company of America on March 5, 2001 for \$207 million. On December 28, 2005, Unitrin, Inc. reacquired direct ownership of the Company for a purchase price of \$174 million. The restructuring of companies was executed to allow the group to take better advantage of federal income tax requirements regarding deferred taxable income.

Capital Stock

At December 31, 2004, the Company had authority to issue 21,000,000 shares of common stock and 6,000,000 shares of preferred stock. 4,000,000 shares of \$1 par value common stock were issued and outstanding at December 31, 2004. All shares were issued to the Company's immediate parent, the United Insurance Company of America for a capitalization of \$4,000,000. No shares of preferred stock were issued or outstanding.

As stated above, Unitrin, Inc. reacquired all 4,000,000 shares outstanding from United Insurance Company of America on December 28, 2005.

Dividends

The Company has paid the following stockholder dividends from inception to date:

Prior to 1999	\$ 70,361,292
2002	25,000,000
2005	<u>40,000,000</u>
TOTAL	<u>\$ 135,361,292</u>

Management

The Company's By-Laws prescribe in Article IV that the Company be managed by a board of directors consisting of not less than three members. Article V of the Company's Articles of Incorporation requires three classes of directors, each consisting of three members, elected for three year terms. The Company's board of directors fulfilled each of these requirements.

Board members serving at December 31, 2004, were as follows:

<u>Name and Location</u>	<u>Business Affiliation</u>
David Frederick Bengston Chicago, IL	Vice President Unitrin Services Company
John Michael Boschelli Chicago, IL	Treasurer Unitrin Services Company
Eric John Draut Chicago, IL	Executive Vice President & Chief Financial Officer Unitrin Services Company
Samuel Lewis Fitzpatrick Chicago, IL	Vice President Unitrin Services Company
Edward James Konar Chicago, IL	Vice President Unitrin Services Company
Scott Renwick Chicago, IL	Secretary & Counsel Unitrin Services Company
Richard Roeske Chicago, IL	Vice President & Chief Accounting Officer Unitrin Services Company
Don Mercy Royster, Sr. St. Louis, MO	President, United Insurance Company of America President, The Reliable Life Insurance Company President Union National Life Insurance Company
Donald Gene Southwell Chicago, IL	President & Chief Operating Officer Unitrin Services Company

Article VI of the By-Laws states that the directors shall elect a Chairman of the Board, President, one or more Vice Presidents, Treasurer, Secretary and such Assistant Treasurers and Secretaries or other officers as the Board of Directors deems appropriate.

Officers elected and serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Donald Gene Southwell	Chairman of the Board
Don Mercy Royster	President
John Robert Camillo	Secretary
Steven Dale McGinley	Treasurer
Gary David Bleitner	Vice President
Judith Marie Hecker	Senior Vice President
Richard John Miller	Senior Vice President
Thomas David Myers	Senior Vice President
Deborah Lynn Quaglia	Senior Vice President

Pursuant to Article V of the By-Laws, the Board of Directors may elect an executive committee of at least two members, an investment committee of at least two members and provides that the Board of Directors may appoint such other committees, as they deem necessary.

The members of the established committees serving as of December 31, 2004, were as follows:

Executive Committee

Eric J. Draut
Don M. Royster, Sr.
Donald G. Southwell

Investment Committee

Eric J. Draut
Don M. Royster, Sr.
Donald G. Southwell

Audit Committee

Donald V. Fites
Reuben L. Hedlund
William E. Johnston
Douglas G. Geoga
Ann E. Ziegler

Conflict of Interest

The Company has a corporate Business and Ethics Policy outlining the responsibilities and expectations of employees. The Company also requires directors, officers and key employees to execute conflict of interest disclosure statements annually. No significant conflicts of interest were disclosed during the period under examination.

Corporate Records

Shareholders' and Board of Directors' meeting minutes were reviewed for the period under examination. The minutes appeared to properly support and approve the corporate transactions and events for the period under examination. The July 2004 Board of Directors' meeting minutes documented the review of the Report of Financial Examination made as of December 31, 2001 by the Missouri Department of Insurance.

The Company's Articles of Incorporation and By-Laws were also reviewed. There were no significant changes to the Articles or By-Laws during the examination period.

Acquisitions, Mergers and Major Corporate Events

Effective December 31, 2003, the Company's wholly owned subsidiary, Clayton Reinsurance, Ltd. (Clayton Re), was merged into the Company. All outstanding shares of Clayton Re common stock were retired. Notification of this transaction was appropriately submitted to the Missouri Department of Insurance.

Effective December 28, 2005, ownership of The Reliable Life Insurance Company was transferred from United Insurance Company of America (a subsidiary of Unitrin, Inc.) to Unitrin, Inc.

Surplus Debentures

The Company has not issued any surplus debentures.

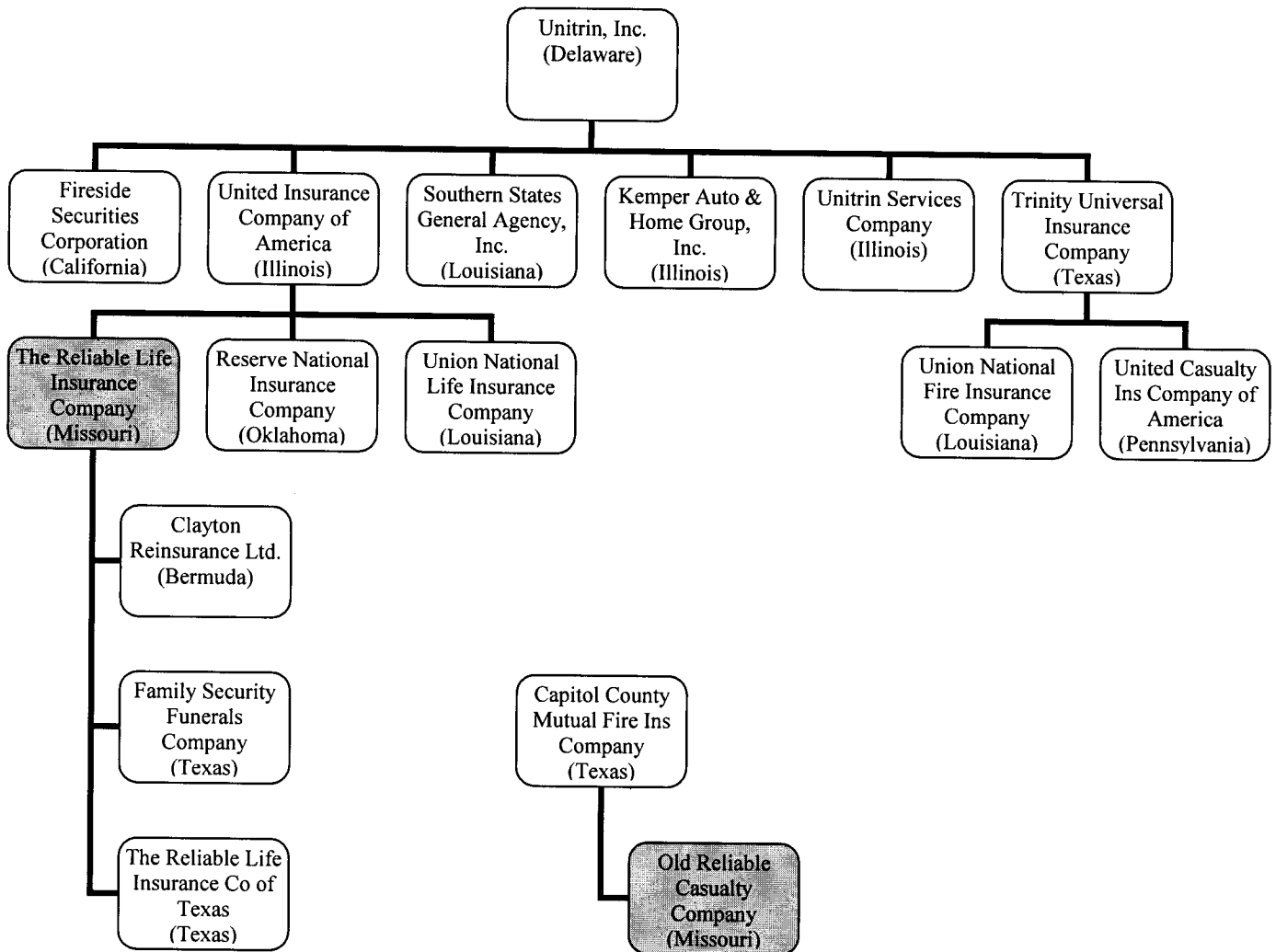
AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling entity is Unitrin, Inc.

The Unitrin holding company system consists of insurance and finance companies which serve clients in markets across the United States. The group services more than 6 million policyholders and consumer finance customers through a nationwide network of agents, independent agents and loan representatives. The Unitrin group is a financial services provider and specializes in property and casualty, life, health and accident insurance as well as consumer finance products. In 2004, the Unitrin group held over \$8 billion in assets and employed nearly 8,500 associates.

Organizational Chart

The following organizational chart depicts a portion of the Unitrin, Inc. holding company system of which The Reliable Life Insurance Company was directly a part at December 31, 2004. All subsidiaries are wholly owned. Capitol County Mutual Fire Insurance Company and Old Reliable Casualty Company are affiliated with the Unitrin group by virtue of a Management Services Agreement, giving Unitrin, Inc. control of these companies.



Affiliated Transactions

The Company has entered into various agreements with affiliates including:

1. Type: General Services Agreement
 Parties: Unitrin Services Company and other affiliates
 Effective: July 1, 1998, amended July 1, 2001 and July 1, 2004
 Terms: Unitrin Services Company provides the Company with management and administrative services. The costs of the services provided are allocated to the Company and other affiliates according to each company's portion of the actual cost to provide the services. Services provided include trade execution and investment analysis, financial accounting and reporting, purchasing and accounts payable, investment accounting, tax return preparation and accounting, cash management, financial planning and analysis of operations, real estate management, corporate secretarial functions, legal support and advice and other services related to the Company's operations.

2. Type: Computer Services Agreement
 Parties: Unitrin Services Company and other affiliates
 Effective: July 1, 1998, amended July 1, 2001 and July 1, 2004
 Terms: Unitrin Services Company (USC) agrees to provide data processing equipment acquisition, software acquisition, consulting, and miscellaneous services on behalf of TRLIC. In return for services provided, TRLIC reimburses USC for direct and indirect costs incurred. USC bills TRLIC monthly based on projected expenses and direct expenses incurred.

3. Type: Administrative Services Agreement
 Parties: United Insurance Company of America
 Effective: August 26, 1998, amended August 1, 2001
 Terms: TRLIC administers United Insurance Company of America's home service life, accident and health policies issued in the states of Oklahoma and Texas. United Insurance Company of America pays TRLIC a quarterly fee based on the number of policies in force at the beginning of each quarter, for providing these services.

4. Type: Services Agreements (two agreements)
 Parties: Clayton Reinsurance, Ltd (Bermuda) and The Reliable Life Insurance Company of Texas
 Effective: January 1, 1994

- Terms: TRLIC is party to agreements with each of the companies whereby TRLIC agrees to provide services and facilities to the companies to assist in the proper and efficient operation and administrative of their businesses. Services include investment services, accounting and claims administration, actuarial services, legal services, data processing and computer services, underwriting and policy issuance services, records maintenance, reporting requirements, and tax return preparation and processing.
5. Type: Insurance Administrative Agreements (four agreements)
Parties: United Insurance Company of America, United Casualty Insurance Company of America Union National Life Insurance Company and Union National Fire Insurance Company
Effective: April 1, 2001, March 1, 2001 and April 1, 2001 respectively
Terms: TRLIC is party to agreements with each of the companies whereby TRLIC agrees to provide underwriting services for the issuance of life, accident & health insurance and fire insurance policies in accordance with the underwriting guidelines of the respective company. TRLIC also provides all policy administration services associated with the business including data processing and maintaining a phone center to respond and assist with each company's field personnel and customers. Each of the companies reimburses TRLIC for expenses incurred on their behalf on an actual cost basis. Costs include specific identifiable costs and allocated costs.
6. Type: Claims Service Agreement
Parties: Union National Life Insurance Company
Effective: November 1, 2000
Terms: Union National Life Insurance Company administers all of the Company's home service division claims for a service fee based on the administrative costs of Union National Life Insurance Company.
7. Type: Service Agreements (two agreements)
Parties: Capitol County Mutual Fire Insurance Company and Old Reliable Casualty Company
Effective: January 1, 1986
Terms: TRLIC is party to agreements with each of the companies whereby TRLIC provides all services required by the companies to assist in the proper and efficient operation of their businesses. Each of the companies reimburses TRLIC expenses incurred on their behalf on an actual cost basis. Costs include specific identifiable costs and allocated costs.

The service agreement with Old Reliable Casualty Company (ORCC) contains a provision stating that a service fee is to be charged if ORCC has net income (before federal and foreign taxes and excluding net realized capital gains or losses for the year). The fee, if applicable, is the lesser of a 12% override on the reimbursable costs or 90% of the company's net income. No service fees have been charged, however, during the period under examination. The Companies should amend this agreement to make it more consistent with cost sharing agreements between other Unitrin, Inc. affiliates and eliminate the provision for the service fee as costs can be determined through the companies' allocation process.

8. Type: Consolidated Income Tax Allocation Agreement

Parties: Unitrin, Inc. and subsidiaries

Effective: July 1, 1998, amended July 1, 2001 and July 1, 2004

Terms: Prior to 2004, TRLIC filed a consolidated Federal income tax return with its direct subsidiaries only. During 2004, the 5-year waiting period required for life companies to file consolidated tax returns with property and casualty affiliates expired and the Company became eligible to file a consolidated return with Unitrin, Inc. The agreement with Unitrin, Inc. stipulates that the tax liability apportioned to each member of the group is based on the relative federal income tax liability each company would have incurred on a separate company basis. Estimated payments or refunds will be made quarterly, with a final settlement within 30 days of filing the combined return or receipt of refund.

Summary

The summary below represents the amounts paid and (received) in 2004 by The Reliable Life Insurance Company as relates to agreements with affiliates:

<u>Affiliate</u>	<u>Paid/(Received)</u>	<u>Agreement Type</u>
Unitrin Services Company	\$ 1,564,923	General Services
Unitrin Services Company	803,287	Computer Services
Union National Life Insurance Company	816,345	Claims Service Agreement
United Insurance Company of America	(5,082,845)	Administrative Services
United Insurance Company of America	(18,392,391)	Insurance Administrative
United Casualty Insurance Company of America	(4,478,127)	Insurance Administrative
Union National Life Insurance Company	(1,143,927)	Insurance Administrative
Union National Fire Insurance Company	(563,992)	Insurance Administrative
Clayton Reinsurance, Ltd.	(12,000)	Service Agreement
The Reliable Life Insurance Company of Texas	(6,000)	Service Agreement
Capitol County Mutual Fire Insurance Company	(13,715,563)	Service Agreement
Old Reliable Casualty Company	(2,833,407)	Service Agreement
Net Payments/(Receipts)	<u>\$ (43,043,697)</u>	

FIDELITY BOND & OTHER INSURANCE

The Reliable Life Insurance Company is a named insured on a fidelity bond providing coverage against losses due to dishonest or fraudulent employee acts with a limit of liability of \$25,000,000 and a deductible of \$500,000. The fidelity bond meets the suggested minimum coverage recommended by the NAIC. The deductible appears commensurate with the Company's financial position.

The Company is also provided coverage as a named insured on additional policies purchased by Unitrin, Inc. This coverage includes: general liability, insurance company errors and omissions, directors and officers liability and property loss.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Reliable Life Insurance Company employees are provided a variety of standard benefits through Unitrin, Inc.'s benefit plans. Unitrin, Inc. sponsors certain contributory and non-contributory qualified defined pension plans, a 401-K Savings Plan and defined benefit postretirement plans that provide certain medical and life insurance benefits for retired and active employees. The Company is allocated its share of the net expenses under these plans.

At December 31, 2004, all home office employees were paid from The Reliable Life Insurance Company payroll system. Effective January 2005, all employees were paid from United Insurance Company of America in order to allow the companies to consolidate all payroll tax filings under one tax identification number.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, are reflected below. These deposits had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 376.290 RSMo (Trust Deposits) and Section 375.460 RSMo (Deposits with director):

	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Bond	\$ 2,000,000	\$ 2,401,560	\$ 2,283,013
US Treasury Bond	<u>3,000,000</u>	<u>4,609,440</u>	<u>3,946,962</u>
Total	<u>\$ 5,000,000</u>	<u>\$ 7,011,000</u>	<u>\$ 6,229,975</u>

Deposits with Other States

The Company has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Georgia	US Treasury Bond	\$ 60,000	\$ 62,972	\$ 61,392
Illinois	US Treasury Bond	20,000	28,227	23,646
Massachusetts	US Treasury Bond	100,000	141,133	118,231
New Hampshire	US Treasury Bond	110,000	155,246	130,054
New Mexico	US Treasury Bond	100,000	104,953	102,320
North Carolina	US Treasury Bond	400,000	469,126	439,617
Texas	US Treasury Bond	4,250,000	5,091,486	4,894,466
Virginia	US Treasury Bond	105,000	122,928	113,062
Total		<u>\$ 5,145,000</u>	<u>\$ 6,176,071</u>	<u>\$ 5,882,788</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in 48 states, the District of Columbia and the US Virgin Islands. The Company is not licensed in the states of Louisiana and New York. The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life, accident and health insurance and annuities.

The Company is principally a home service insurance Company. Business is produced through a career agency force of approximately 950 field representatives and assistant managers, all of whom are under the direction of 36 district managers.

The Company's sales force also provides marketing for Capitol County Mutual Fire Insurance Company (Texas) and its subsidiary, Old Reliable Casualty Company (Missouri). In addition, the Company's agency sales force services the home service policies of The Reliable Life Insurance Company of Texas and United Insurance Company of America (Texas, Oklahoma, Missouri and Arkansas business only).

The Company primarily writes whole life insurance products, with lesser amounts of individual term, interest sensitive whole life insurance. Endorsements in the form of riders are available, providing for double indemnity and waiver of premium features. In addition, the Company writes a small amount of individual and group accident and health business.

Policy Forms & Underwriting; Advertising & Sales Materials; Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The most recent review began in February 2001, but was suspended in August 2001 due a proposed settlement with the Company and other Unitrin, Inc. affiliates.

The above settlement addressed a race-based underwriting and rating issue, which was one of the issues being investigating during the market conduct examination. The settlement was part of a global settlement between various states and the named companies (of which The Reliable Life Insurance Company was part). All regulatory violations alleged or which may be alleged regarding raced based underwriting, sales, pricing and policy benefit practices were covered under the global settlement agreement. The settlement provided for Unitrin, Inc. affiliates to pay approximately \$33 million in estimated and guaranteed payouts to insureds and \$2.25 million for other regulatory enhancements and sanctions. The majority of the Company's liabilities for these claims have been settled subsequent to 2002. The Company's financial statement continues to include a provision for its share of the remainder of potential liabilities for these issues.

REINSURANCE

General

Direct written, assumed and ceded premium for the current examination period was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Direct Business	\$ 112,357,031	\$ 113,615,034	\$ 110,856,158
Reinsurance Assumed	4,028,404	4,417,261	4,844,018
Reinsurance Ceded	<u>300,440</u>	<u>304,435</u>	<u>218,611</u>
Net Premiums	<u>\$ 116,084,995</u>	<u>\$ 117,727,860</u>	<u>\$ 115,481,565</u>

Reinsurance agreements in which the Company participates are further described below. Only significant reinsurance coverages and activity during the current examination period are included. The Company has several additional reinsurance treaties in force, which involve business that is in runoff and does not have a significant impact on the Company's financial statements.

Assumed

United Insurance Company of America

The Company entered into a reinsurance agreement with United Insurance Company of America (United) in January 1997. Under this agreement, The Reliable Life Insurance Company coinsures 100%, of a block of home service life and accident and health insurance policies written by United Insurance Company of America. The Company assumed approximately \$3.7 million in life and accident and health insurance premiums under this agreement in 2004.

In February 1998, a portion of the assumed business was recaptured by United Insurance Company of America. The recaptured business included all Missouri premium paying life policies assumed by TRLIC pursuant to a "Recapture Agreement." The Recapture Agreement was required by the Missouri Department of Insurance as a condition of the 1998 purchase of TRLIC by Unitrin, Inc. United then ceded the recaptured business to Reassure America Life Insurance Company of Jacksonville, Illinois, through an assumption reinsurance agreement. The Reliable Life Insurance Company continues to administer the Missouri business.

The Reliable Life Insurance Company of Texas

In September 1994, TRLIC and The Reliable Life Insurance Company of Texas entered into a reinsurance agreement where The Reliable Life Insurance Company coinsures 100% of a block of home service life insurance business. The business was originally written by Shannon Life Insurance Company and assumed by The Reliable Life Insurance Company of Texas. The Company assumed approximately \$300,000 in premium under this agreement in 2004.

Ceded

Generali USA Life Reassurance Company

The Company is party to an automatic yearly renewal term (YRT) reinsurance agreement with Generali USA Life Reassurance Company. Under the terms of the agreement, the Company retains \$100,000 each risk with a reinsurer limit of four times the Company's limit on any one risk, provided that the total amount issued and proposed to be issued does not exceed \$10,000,000. This agreement has been in place since 1985, however the reinsurer changed in 2003 from Business Men's Assurance Company of America (BMA) to Generali USA Life Reassurance Company (Generali USA) due to BMA being sold to Liberty Life Insurance Company. Under the terms of the sale, BMA's parent retained the reinsurance division of BMA, which now operates as Generali USA. The YRT reinsurance agreement was novated during 2003 with Generali USA as the new reinsurer. The Company ceded premiums of approximately \$156,000 under this agreement in 2004.

ACCOUNTS AND RECORDS

General

The Company uses modified commercially written mainframe policy (Life/70) and claims administration systems, as well as a commercially written general ledger software system (Oracle).

Independent Auditor

The Company's financial statements were audited by the independent CPA firm Deloitte & Touche, LLP as part of the Unitrin, Inc. company-wide audit for the years ending 2000 to 2004. A separate audit report and opinion was provided for The Reliable Life Insurance Company. We reviewed the workpapers of the 2004 CPA audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuary

Claims related reserves and other actuarial items for 2004 were reviewed and certified by Gary D. Bleitner, FSA, MAAA, Vice President and Chief Actuary of The Reliable Life Insurance Company.

Consulting actuary, Timothy F. Harris, FCAS, MAAA, of Milliman USA was retained by the Missouri Department of Insurance to review the adequacy of the Company's reserves.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the examination workpapers.

ASSETS

	<u>Ledger and Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 513,256,370		\$ 513,256,370
Preferred stocks	6,827,695		6,827,695
Common stocks	3,274,462		3,274,462
Mortgage loans	977,056		977,056
Real estate occupied by the company	556,458		556,458
Real estate for production of income	750,000		750,000
Real estate held for sale	671,372		671,372
Cash and short term investments	72,941,185		72,941,185
Contract loans	47,414,702		47,414,702
Other invested assets	1,470,341	790,449	679,892
Investment income due and accrued	8,057,731		8,057,731
Premiums in course of collection	1,198,469		1,198,469
Deferred premium not yet due	25,658,790		25,658,790
Federal and foreign income taxes	43,732		43,732
Net deferred tax asset	32,235,381	28,502,380	3,733,001
EDP equipment and software	193,079		193,079
Furniture & other non-admitted assets	2,694,420	2,694,420	0
Receivable from affiliates	2,177,253		2,177,253
Accounts receivable	316,170		316,170
Funds withheld on reinsurance	195,439		195,439
Suspense items	<u>66,680</u>	<u>-</u>	<u>66,680</u>
Total Assets	<u>\$ 720,976,785</u>	<u>\$ 31,987,249</u>	<u>\$ 688,989,536</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$ 572,430,134
Aggregate reserve for accident and health policies	1,037,679
Liability for deposit-type contracts	596,446
Life policy and contract claims	6,114,157
Accident and health policy and contract claims	725,073
Policyholders' dividends due and unpaid	3,806
Policyholders' dividends apportioned for payment	1,721
Premiums received in advance	718,204
Interest Maintenance Reserve	1,180,380
Commissions to agents due or accrued	2,763,757
General expenses due or accrued	9,872,800
Taxes, licenses and fees due or accrued	305,747
Unearned investment income	143,661
Amounts withheld or retained by company as trustee	6,075,765
Remittances and items not allocated	1,319,228
Asset valuation reserve	1,999,226
Payable to affiliates	2,846,715
Payable for securities	1,636
Accounts payable and other liabilities	840,360
Notes payable	<u>679,892</u>
Total Liabilities	\$ 609,656,387
Common capital stock	\$ 4,000,000
Paid in and contributed surplus	10,000,000
Unassigned funds (surplus)	<u>65,333,149</u>
Total Capital and Surplus	\$ <u>79,333,149</u>
Total Liabilities and Capital and Surplus	<u>\$ 688,989,536</u>

SUMMARY OF OPERATIONS

Premium considerations	\$ 116,084,995	
Net investment income	35,179,349	
Amortization of Interest Maintenance Reserve	168,909	
Service fee income	271,298	
Miscellaneous income	<u>82,044</u>	
Total Revenue		\$ 151,786,595
Death benefits	39,183,481	
Matured endowments	1,609,861	
Annuity benefits	430,270	
Disability benefits	1,889,923	
Guaranteed endowments and similar benefits	1,657	
Surrender benefits and withdrawals for life contracts	10,967,335	
Interest on deposit-type contracts	231,612	
Payments on supplementary contracts	526	
Increase in aggregate reserves	20,366,300	
Commissions on premiums	23,344,634	
Commissions and allowances on reinsurance assumed	532,107	
General insurance expenses	31,556,782	
Insurance taxes, licenses and fees	5,951,753	
Increase in loading on deferred and uncollected premiums	<u>(459,203)</u>	
Total Benefit Costs and Insurance Expenses		<u>135,607,038</u>
Gain from operations before dividends, federal income taxes and realized capital gains or (losses)		\$ 16,179,557
Dividends to policyholders	4,846	
Federal income taxes incurred	7,910,317	
Net realized capital gains or (losses)	<u>1,466,892</u>	
Net Income		<u>\$ 9,731,286</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year		\$ 71,028,674
Net income	9,731,286	
Change in net unrealized capital gains (losses)	(417,350)	
Change in nonadmitted assets	(4,476,636)	
Change in net deferred income tax	2,447,533	
Change in asset valuation reserve	<u>1,019,642</u>	
Change in surplus as regards policyholders		<u>8,304,475</u>
Surplus as regards policyholders, December 31, 2004		<u>\$ 79,333,149</u>

EXAMINATION CHANGES

None

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Premiums Receivable

Page 3

The premiums receivable account continues to include approximately \$150,000 related to policies where the Company has already paid a death benefit. The Company should take steps to eliminate these balances from premiums receivable reported as admitted assets in future financial statements.

Liability for Deposit-Type Contracts

Page 3

The Liability for Deposit-Type Contracts reported in the Annual Statement continues to include the accumulation of premium overpayments. The Company should implement procedures related to premiums left on deposit by the policyholder. These premiums should be refunded on future premium billings or returned to the policyholder. If the policyholder cannot be located, the funds should be remitted as unclaimed property.

Life Policy and Contract Claims

Page 4

The Company was instructed in the prior examination that the claims database and the general ledger should be reconciled on a periodic basis. The Company is directed again to reconcile the paid claims database and the general ledger to ensure that significant amounts of data are not missing from either of the sources. Also, the Company should ensure that the paid claim amounts used to compile its lag studies are accurate and complete to produce the best possible estimate of the unpaid claims liability.

Service Agreement

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The Company should amend its Service Agreement with Old Reliable Casualty Company to make it more consistent with cost sharing agreements between other Unitrin, Inc. affiliates and eliminate the provision for the service fee, as costs can be determined through the companies' allocation process.

SUBSEQUENT EVENTS

Effective December 28, 2005, ownership of The Reliable Life Insurance Company was transferred from United Insurance Company of America (a subsidiary of Unitrin, Inc.) to Unitrin, Inc. All outstanding shares of the Company's stock were purchased for \$174 million. The change in ownership was exempt from a Form A filing as Unitrin, Inc. remained the ultimate controlling person. The Missouri Department of Insurance issued an Order of Exemption from a Form A hearing on November 17, 2005.

In conjunction with and immediately following the transfer of ownership, The Reliable Life Insurance Company declared and paid a dividend in the amount of \$40,000,000 to its parent, Unitrin, Inc. \$31,735,606 of the \$40,000,000 dividend was considered extraordinary and was approved by the Missouri Department of Insurance on December 2, 2005.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of The Reliable Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John M. Boczkiewicz, CPA, CFE, Thomas Cunningham, CPA, CFE, Arthur L. Palmer, CFE, Maipandi Obeth and John Rehagen, examiners representing the Missouri Department of Insurance, participated in this examination.

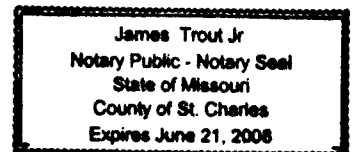
VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 19 day of APRIL, 2006.



My commission expires:

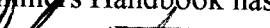


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiner's Handbook has been confirmed.

Examiners Handbook has been confirmed.


Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners